97-84032-19

National Retail Merchants Association

Plan to revise the Revenue Law of 1918

New York

[1921]

97-84032-19
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ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

National retail ~~dry goods~~ merchants association. Taxation committee.
Plan to revise the revenue law of 1918, proposed by the Taxation committee of the National retail dry goods association, received by the Executive committee, November 22, 1920, and ordered published to all members of the Association for their study and approval ... New York, National retail dry goods association [1921]
15 p. 22½ cm.

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm   REDUCTION RATIO: 10:1   IMAGE PLACEMENT: IA **(IIA)** IB IIB

DATE FILMED: 2-28-97   INITIALS: MS

TRACKING # : 22254

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

Plan to Revise the Revenue Law of 1918

Proposed by the Taxation Committee of the National Retail Dry Goods Association

Received by the Executive Committee, November 22, 1920, and ordered published to all members of the Association for their study and approval

NOTE. This plan and brief were prepared and submitted to the Executive Committee prior to the recent issuance by the Secretary of the United States Treasury of his new revenue estimates but the changes in estimates in no way affect the principles or workability of the Committee's plan.

Published by the
National Retail Dry Goods Association
Lew Hahn, Managing Director
00 Fifth Avenue, New York

Explanation

On May 28, 1920, the members of the National Retail Dry Goods Association were asked to vote on Referendum No. 2 on the question of Taxation Revision. The result of the Referendum vote was over-whelmingly in favor of the principles of revision advanced by the Association's Taxation Committee.

This vote definitely committed the Association to the principle of the repeal of excess profits taxes, the downward revision of the surtaxes on individual income and the substitution therefor of a tax upon all sales of all commodities and the increasing of exemptions to individuals as well as the adoption of a national budget.

The Referendum also definitely committed the Association to the principles of opposition to any attempt to impose a tax on retail sales only.

Immediately upon the enunciation of these principles the Taxation Committee of the Association began the work of drawing up the plan of tax revision which is submitted herewith. Careful reading and study of this brief will disclose to you the very definite recommendations advanced by the Committee to be as follows:

All income is divided into three classes, as follows:

Class 1—Income from Salaries, Wages, Bonuses, etc. (Income from Manual or Mental Effort).

Class 2—Business Income and

Class 3—All Other Income, including the sales of capital assets;

and that all income, even though so divided, should be so taxed that there is in the net proceeds to the receiver of it a slight difference and a slight difference only after taxes have been paid.

It is upon this definite principle that the Taxation Committee has proceeded. It has believed in and has proposed the elimination of all special taxes on business contained in the existing Revenue Act, with the exception of the long-established excise taxes on liquors and tobacco products.

The Committee has been unable to admit that the determination of arbitrary exemptions upon individual incomes should relieve altogether those with incomes less than such exemptions of the privilege and duty of contributing to the support of the Government and it has recommended that there shall be a small tax on such incomes.

A very careful and intensive study has convinced the Taxation Committee that there must be for a number of years a tax revenue of at least four billion dollars and our plan has provided for raising approximately half of this amount by a tax on all sales of all goods, wares and merchandise. Subsequent study of the question of individual exemptions has led the Committee to believe that the amounts proposed in the previous Referendum were insufficient to bring about the equity necessary, especially if a sales tax is to be adopted, and it has therefore taken the liberty to increase slightly such exemptions.

Special attention is called to the Committee's plan of putting all business on the same basis, to the payment of taxes on business by the business itself, to the fact that non-distribution of profits when necessary to retain such profits in the business for its future development is not penalized and that business income when it reaches the individual is subject to no further tax.

Special attention is also called to the very definite separation in individual returns of the three classes of income and to the fact that although the rate of surtax imposed on income from the 3rd Class is the same as the surtax rates in the Act of 1913, the effect is entirely different and of much less burden because the surtax rates of 1913 apply to *all* individual income.

You are requested to study the plan carefully, to consider it not only from the standpoint of your own interest but to take into consideration the interest of the country as a whole. There has been no selfish attempt on the part of the Committee simply to reduce the taxes of Association members, although any logical plan of taxation revision which has as its basis a more equitable distribution of tax burden will necessarily so result.

The Committee believes in the principle of taxes on income. It is convinced that such principle is firmly entrenched in the minds of the people as evidenced in the adoption of the 16th Amendment to the Constitution of the United States authorizing such taxes, but it believes irrevocably that any attempt to raise the entire revenue of the country by an income tax would be disastrous.

The Committee also believes that it is infinitely better for the Government to have several sources of income than to be confined to one source, and it is convinced that a sales tax alone would be unfair to those receiving small income and spending a large proportion of such income for the actual necessities of life, as contrasted with those of large income whose expenditures for such necessities bear a small ratio to their total income.

Notwithstanding the definite instructions contained in the former vote of the Association on the Referendum, the Taxation Committee has continued carefully to consider various revision plans based upon the deriving of tax revenue from one source, either that of a tax on incomes or that of a tax on sales, and its consideration of the claims of the proposers of such plans has confirmed it in its opinion that the vote on the previous Referendum established the proper principle—a combination of the two rather than either one singly.

LEW HAHN,
Managing Director

Report of Taxation Committee

TO THE BOARD OF DIRECTORS
THE NATIONAL RETAIL DRY GOODS ASSOCIATION

To the opinion that the excess profits tax imposed by the Revenue Act of 1918 should be repealed, there is so little dissent that it may be regarded as unanimous. As to the necessity of including in the repeal other sections of the Act, and in the plans of revision so far proposed there is, however, no such unanimity. After a careful study of such plans as have come to its attention, this Committee, while it admits the sincerity of the various proponents, and the excellence of various parts of their plans, has reluctantly concluded that none of the plans it has studied, has combined with its revenue-producing power the simplicity and equity which must attach to the substitute for the present measure.

We believe that any plan of tax revision must be based (1) upon its power to produce revenue; (2) upon its equity; and (3) upon its simplicity of interpretation, return and administration; and that that plan, which possesses in the highest degree these necessary foundamentals, should be adopted. Keeping these things in mind and with no thought of nor regard for that which is simply politic or possible, we have endeavored to frame a tax structure so firm as to its foundation, so broad in its distribution of burden, so ample in its provisions of revenue, and so smple in administraton, as to be beyond all reasonable criticism.

Believing that this foreword will acquaint you with the spirit with which the Committee was animated and with the premises upon which it has endeavored to base its conclusions, we beg to submit the following tax plan for your careful and earnest consideration.

We have accepted as our basis the estimate of Government officials that even with the adoption of a budget system, with the funding of the War debts and the extension of the term of their payment and with the most economical operation of the Government there will be for a period of years a revenue requirement of $4,000,000,000 annually.

We present, first, an outline of our plan, following with a detailed explanation, believing that by such method there will be present a clearer picture of our proposal.

General Plan

WE BELIEVE THAT:

(1) Income from salaries, wages and bonuses, et cetera (income from manual or mental effort), should not be taxed at so high a rate to the worker as income from business or investments.

(2) Income derived from business, whether individual, partnership or corporate, should be taxed on the business itself, and be subject to no further tax when distributed to partners or stockholders.

(3) All other income, including profits from the sales of capital assets, should be taxed at a higher rate than income from business and in still greater degree than income from manual or mental effort.

(4) There should be eliminated from the Revenue Act of 1918:
(a) Excess Profits Tax on Corporations.
(b) The present surtaxes on individuals.
(c) The tax on transportation, insurance, etc.
(d) That part of Title VI, which applies to the tax on non-alcoholic beverages.
(e) The tax on admissions and dues.
(f) The excise taxes contained in Title IX.
(g) The special and capital stock taxes.
(h) The stamp taxes.

(5) All persons who reside in the United States who have reached the age of 21 years, and are in receipt of an independent income, should pay a tax in support of the Government, under whose protection they live and whose privileges and opportunities they enjoy.

(6) There should be a tax on the gross sales of all goods, wares and merchandise, sufficient, when added to all other taxes herein proposed, and customs receipts, to aggregate the $4,000,000,000 necessary to support the Government.

(7) There should be a uniform exemption to all businesses and an increase in the exemption to individuals.

From this broad enunciation of the principles of our plan we proceed to the study of the details of each of the points we have submitted, with special consideration of their equity and simplicity.

Plan in Detail

(Class 1)—Income from Salaries, Wages, Bonuses, Commissions, etc., paid by individuals, partnerships, or corporations in business to employees and officers, and allowable under this plan as expense deductible from the gross income of individuals, partnerships and corporations, or paid by individuals not in business to personal employees, both subject to the limitations and exemptions provided by law and Treasury decisions shall be taxed at 4% on the first $4,000 above exemptions, and 8% on the remainder. The individual exemption from such income shall be $2,500, to each single person; $5,000 to head of family or married person living with husband or wife, with an additional exemption of $500 for each minor child or dependent.

It is generally recognized that earned income should be subject to less tax than unearned income, but that salaries or wages derived from a business are more truly earned income than is the income derived from the profits of a business, is not so easily apparent. Salaries or wages are paid to an employee because of his investment of his personal effort, not because of his investment of money. Profits are the result of the combination of personal effort and the investment of accumulated wealth and, dependent upon the influence of the latter, include a certain amount of income which has not been produced by personal effort, and, therefore, is unearned.

It is difficult to determine where to draw the line and impossible to explain the solution at which we have arrived without discussing

(Class 2)—Tax on Income Derived from Business, the exemption thereto and considering the two subjects together.

On the net income derived from business, whether it be individual, partnership or corporate, there shall be levied a tax of 10%, with an exemption of $5,000; net income to be determined, except as herein noted, according to Treasury decisions which, as now applying to the individual, partnership or corporate form of business, shall be so consolidated as to apply without discrimination to either (or each). The allowance of salary or wage to the individual owner, to partners or to officers of a corporation as deductible expenses of the business shall be limited to an amount not in excess of 20% of the total of such wage and the net income. If no wage has been charged to the business, 20% of the net income may be deducted from the net business income and taxed to the individual as the income from wage, less individual exemption; the balance of 80% to be taxed as business income at 10%, less business exemption.

A corporation is allowed a business exemption of $5,000. Assuming its officers to be married, each will receive an exemption of $5,000 on his salary from the corporation which he will return as individual income. A partnership also is allowed a business exemption of $5,000; and each of the partners will receive an exemption of $5,000 on his salary from the partnership business, which he will return as individual income. Such is the principle acknowledged by the present law, and in equity it must be extended to the individual in business, allowing as deductible expense of the business the wages of the owner (within the limits of 20%), which he, as an individual, shall return as individual income from wage, with an individual exemption of $5,000; the income of the business, above the business exemption of $5,000, to be returned as a separate income from business, subject to the higher rate of 10%.

The reason for limiting the amount of wage which shall be allowed to business as deductible expense is not only to control and standardize the transfer of what is in many cases really business profit, but it is also an effort toward equity, because it results in an equalization of the net proceeds to the individual taxpayer, no matter whether the income is from wage alone, or is a combination of income from wage and business. It is fixed at 20% of the combined amounts of wage and net income, and not in any sense by chance, but because careful study and numerous calculations have proven that, although the allowance of a higher percentage would have little influence on large incomes, it would discriminate when applied to smaller businesses against the man whose only source of income is the wage he earns, unaided by the investment of capital.

The equity of a tax on business depends solely upon the investor receiving net proceeds, free from further tax, of approximately the same amount, no matter whether he receives it from his own business, from a business in which he is a partner, or as dividends on stock he holds in a corporation.

The equity contained in our plan as it applies to income from salaries and wages and to income from business is clearly illustrated in the following examples:

Wage Income *Business Income* *(No Wage Charged)*

Wage Income	Business Income		
Individual Income $10,000 $10,000 wage 5,000 exempt $ 5,000 taxable income 4,000 at 4% $160 1,000 at 8% 80 $240 $240 total tax deducted from total income leaves $9,760 net proceeds to Individual	Individual $10,000 Rede-termi-mation { $2,000 wages 8,000 business Individual Tax $2,000 wage 5,000 pers'l. exempt. Nil Indiv. tax Business Tax $8,000 Business Income 5,000 Business Exempt. $3,000 at 10% 300 Business Tax 300 Total Tax 9,700 Net proceeds to Individual	Partnership (2) $20,000 $4,000 wages 16,000 business divided equally Individual Tax 2,000 wage 5,000 exempt Nil Indiv. tax Business Tax $16,000 Business Income 5,000 Business Exempt. $11,000 at 10% 1,100 Business Tax 1,100 Total Tax 14,900 Net business income 7,450 Net business income to each 2,000 sal. each $ 9,450 net proceeds to each	Corporation (5 members) $50,000 $2,000 wage each 10,000 total wage 40,000 business divided equally Individual Tax $2,000 wage 5,000 exempt. Nil Indiv. tax Business Tax $40,000 Business Income 5,000 Business Exempt. $35.000 at 10% 3,500 Business Tax 3,500 Total tax 36,500 Net business income divided equally results in 7,300 net business income to each 2,000 Wage $ 9,300 net proceeds to each

Above are shown in contrast taxes on wage income and taxes on income derived from business with no wage charges applied to four different classes of tax payers;—first, the return on $10,000 of wage income; second, $10,000 of income from an individual business; third, $20,000 of income from a business operated by two partners, and fourth, $50,000 of income from a business operated by a corporation of five members. Upon division of the income between the partners and among the corporation members, each individual without deduction for taxes would have received $10,000. After deduction of the taxes proposed in this plan, from the wage income there would remain to the taxpayer $9,760, to the individual from his business income $9,700 to the partners each $9,450 and to the members of the corporation each $9,300. This income in each case would be subject to no further federal tax. Note the heretofore unobtained equalization of tax liability achieved under this plan.

Wage Income *Business Income* *(Wage Charged)*

Wage Income	Business Income		
Individual $50,000 wages 5,000 per exmpt. $45,000 net 4,000 at 4% 160 41,000 at 8% 3280 Total tax $3440 $46,560 net to individual	Individual $50,000 10,000 wage 40,000 business Individual tax $10,000 wage 5,000 exempt 5,000 taxable $4,000 at 4% 160 1,000 at 8% 80 Indiv. Tax. 240 Business Tax $40.000 business income 5,000 business exempt. $35,000 at 10% Business tax $3,500 Tax to indiv. $3,740 Net to indiv. 46,260	Partnership (2 partners) $100,000 20,000 wage 80,000 business Individual tax $480 $80,000 business income 5,000 business exempt. $75,000 at 10% $7,500 plus indiv. tax 480 Total tax $7,980 Net income to partnership $92,020 share of each 46,010	Corporation $250,000 (5 stockholders) 50,000 wage 200,000 business income Individual tax $1,200 $200,000 business income 5,000 business exempt. $19,500 bus. tax $195,000 at 10% Total tax $20,700 Net income to corporation $229,300 equally divided among 5 stockholders $45,860 ach

In the above examples which contrast the tax paid by an individual with wage income of $50,000 with the tax on business income with wage charged, note that as the tax return progresses into higher figures the same equalization referred to in the examples on the preceding page also holds good.

We make no attempt to define income from business in any other than a general way. In the case of corporations, it should be easily determined from the charter, in partnerships, from partnership agreements. In the case of the individual, determination of the fact that a person is engaged in a trade, business, or profession is more difficult. An individual who works for another individual, for a partnership, or for a corporation, receiving from them a salary, wage, bonus, commission, or other form of compensation, is not in business. Income, other than wage and other than that from bonds and securities, should be the factor determining what an individual's business really is, and an individual's "principal occupation," claimed as such in his income return, and supported by schedules of income received and the sources thereof should fix the income from such "principal occupation" as the business income of the individual; and class all other income (except that from salaries, wages, etc.) as

(Class 3)—All Other Income, Including Profits from the Sales of Capital Assets, on which there shall be levied a normal tax of 10%. Income from these sources shall be taxed not only on the individual, but on partnerships and corporations when they receive it. In addition to the normal tax, with its exemptions it shall be subject to surtaxes, in accordance with the plan of the Revenue Act of 1913, with an exemption from surtax of $20,000 and with rates as follows:

1%	$ 20,000	to	$ 50,000
2%	50,000	to	75,000
3%	75,000	to	100,000
4%	100,000	to	250,000
5%	250,000	to	500,000
6%	on all over		500,000

Individual exemptions shall apply to this class of income as follows:

If all individual income falls in this class, the total amount of individual exemption shall apply to it.

If individual income is derived from both Class 1 and Class 3, the exemption shall apply, first, to the income from Class 1, and, second, to the income from Class 3, with the provision that such exemption shall not apply to income from Class 3 unless there is an excess of exemption over income from Class 1.

To illustrate:

1st Example. **In the case of a married man, individual income.**

Class 1—Income, etc.		$5,000
	Exemption	5,000
	Subject to tax	0,000
Class 3—Income		$5,000
	Exemption	0,000
	Subject to tax at 10%	$5,000

2nd Example. **In the case of a married man, individual income.**

Class 1—Income		$2,500
	Exemption	5,000
	Exemption Excess	$2,500
Class 3—Income		$5,000
	Excess Exemption from Class 1	2,500
	Subject to tax at 10%	$2,500

The imposition of surtaxes on all income in this class above the amount of $20,000, is a recognition of the principle that income derived without effort and the result of an accumulation of wealth should bear a greater burden of taxation than the income from wage or business.

(4) ELIMINATIONS. The eliminations which we propose are of those taxes which are entirely or in large degree, taxes upon business. It would seem unnecessary and superfluous to advance any argument for the elimination of the Excess Profit Taxes, in view of the fact that there is not only a public recognition of the necessity for repeal, but an acknowledgment by Government officials that they should be repealed.

All of the objections which attach to Excess Profit Taxes, all the reasons which have been advanced for their repeal, apply with equal force to the surtaxes on individual income, in so far as such individual income is derived from business or from wage.

Excessive surtaxes against income from investments defeat their own object, because they force evasion of the tax by individual investment in tax exempt securities. No careful study of the subject of surtaxes on individual income can result in any conclusion other than that they are closely analogous to Excess Profit Taxes in their effect on industry, thrift, initiative and ambition, as well as production and that they should be removed from all income from wage or business. As already outlined we have recognized that on unearned income surtaxes of moderate rates should be imposed.

The study of the other eliminations which we propose will lead to the definite conclusion that, with only a slight exception, the taxes eliminated are special taxes on business, difficult of administration and collection, and defensible only because of their production of necessary revenue. The reason for their imposition will cease when a more equitable form of tax which will produce the revenue required, and remove the difficulty of administration and collection, is substituted.

Internal Revenue income, under the present tax plan, is derived from numerous sources, which compels the setting up of complicated Government collection machinery, and the establishment of separate Internal Revenue Departments for the handling of each different kind of tax. Each department is conversant only with the problems of its own tax, with the result that the personnel of the Internal Revenue Department is inflexible.

It is our desire by the elimination of all special taxes, to remove the complexities in tax collection, and by sheer simplicity to reduce the expense of government administration.

The taxes included in our list of eliminations are all taxes on business, except that Title V-Transportation-Insurance, etc., extends to individuals who are not in business. As it would be impossible to eliminate the tax on business which this Title imposes, and at the same time retain the tax on individuals, the Title must be entirely eliminated. It is only by the elimination of the various and separate business taxes, and the substitution for them of the normal tax on business and the sales tax, that the simplicity and equity on which our plan is based, can be attained.

(5) MINIMUM INCOME TAX. All persons who reside in the United States who have reached the age of 21 years and who are in receipt of an independent income to be assessed a uniform tax of $5.00 which must be paid although there may be no taxable income as otherwise proposed in this plan. In the case of the existence of taxable income and a consequent income tax thereon, this tax of $5.00 shall not be assessed in addition to such income tax, but shall be considered as a part of it, provided such income tax is in the amount of $5.00 or more. If this amount should be less than $5.00 there shall be required no payment of such amount as an income tax, but in lieu of it there shall be required the payment of this minimum tax of $5.00.

This tax is a recognition that every resident in the United States, citizen or alien, owes an obligaton to support the Unted States which obligation cannot be measured solely by his income and which, even in the absence of taxable income still exists.

We submit that the person whose income is only slightly less than the exemption, should not be excused from contributing to the support of the Government, while the man whose income is slightly more than the exemption, makes his contribution to its support. Both enjoy the equal privilege of living in the United States with equal opportunities and equal protection of its laws. Each has the same chance to develop income.

It is estimated that there were some 19,000,000 persons in the United States who should have returned in the year 1918 on incomes from $1,000 to $2,000. As an actual fact, government records show that only 1,672,000 persons made such returns.

A $5.00 tax on all residents, citizens or aliens will compel a report of income from every one with independent income, whether they believe they have taxable income or not, and undoubtdly will result in a very large increase in individual tax. From a patriotic standpoint, there should be no question as to the payment of such a tax. It certainly is worth $5.00 a year (less than 50 cents a month) to live in the United States, and it is inconceivable that any individual should object to the payment of so small an amount.

The objection which may be raised as to the increase in the work and expense of the Bureau of Internal Revenue which would be caused by such tax is, we believe, completely answered by the fact that it would of itself alone, produce a revenue of from $80,000,000 to $100,00,000, which is three or four times the present expense of the Bureau.

(6) SALES TAX. The exact amount of revenue to be raised by such tax can only be approximated, but according to our plan it would undoubtedly be less than $2,000,000,000, or not more than 50% of the total revenue requirement. The gross sales of the United States have been variously estimated, but experts agree that the amount is somewhere between $1,200,000,000,000 and $1,500,000,000,000. One leading economist, recognized as an authority on the subject, has arrived at a figure of $1,269,000,000,000 for 1918.

These figures are quoted not to convey the impression that a sales tax should apply to sales of any such amount, but to show that with the elimination of exchange turnover, such as grain, cotton, stock, sales of securities, etc., and with the additional removal from consideration as sales, of broker's fees, professional services, rents, royalties, there would remain a total of true sales of goods, wares and merchandise on which a tax of even one-half of one per cent. would supply

the $2,000,000,000 tax revenue, which by our plan, must be derived from a sales tax.

Not only would such sales tax supply the revenue which will be lost by the eliminations which we propose, but we believe it the simplest and most reasonable substitute for them.

We do not believe it wise to provide the entire tax revenue in such way because of the inequities which would result. A sales tax is criticized by some because it is a consumption tax which will bear heavily upon persons of moderate income. We admit the possible truth of such criticism if the entire revenue requirement of the Government were to be raised by a tax on sales, or if any plan of taxation, of which a tax on sales were a part, did not provide the equity to such taxpayers, which we believe our plan supplies. The reduction of surtaxes, the increase in exemptions, the removal of the excess profit taxes and the substitution of a sales tax, as outlined in our plan, will, we believe, reduce the tax burden of the ultimate consumer who, regardless of all arguments to the contrary, must pay all taxes.

It is generally admitted that the present taxes and their pyramiding have resulted in a tax content in the present sales dollar of approximately 25%. We are convinced that our plan will reduce this tax content in the same sales dollar to not more than 17%, and such reduction would mean nothing more nor less than a reduction of 8% to the consumer in the price of all goods, wares and merchandise.

The Sales Tax plan is criticized because apparently it will be a direct tax on the business which makes little or no profit. In answer to such criticism it should be recalled that our plan grants to all business an income tax exemption of $5,000, which is $3,000 more than the Corporation Normal Tax exemption under the 1918 Act, and that a Sales Tax will be considered by all business, successful or unsuccessful, as an added expense which will be passed on to the consumer. The fact that it is non-competitive in that all dealers must pay it, should remove from thinking minds any apprehension that it can possibly operate to the disadvantage of a business which makes small profit. Indeed it is fair to presume that in the expectation of having to pay Excess Profit or Surtaxes of unknown amounts the business man today in planning his prices, adds to them far greater element of tax because of the very uncertainty as to the amount of such tax, than he will add under our plan of a normal tax on business plus a tax on sales. Uncertainty in figuring selling prices and in the calculation of expected profits is removed.

It has been said that there are businesses which because they turn raw material into finished product, (generally called "consecutive operation" business) will be favored by a sales tax because from raw products to the finished product there will be only one sale, and consequently only one sales tax—that on the sale of the finished product. Such businesses are not now criticized because of their ability to perform consecutive operations, and, in consequence to hand their product down to their consumers, at a price less than that on similar products, produced by the operations of several different concerns, which necessitate a series of sales from one business to another.

It is impossible to believe that so small a factor as the sales tax difference

in such a case could possibly result in any inequity to the consumer or to the businesses affected. As a matter of fact the sales tax on the self-contained consecutive operation business would be of direct benefit to the consumer, because it would result in a reduction in the price of the product as compared with similar goods, the production of which involves several different concerns.

The advantages of a sales tax include that of an equal payment by everybody in the country, and as it will not be paid by the consumer as a tax and, as it is in itself of so small an amount, little criticism by the consumer may be expected. The simplicity of its administration is apparent when it is understood that it will be paid by the business each month, if necessary, on sales as disclosed by records.

Under the present system of tax payment, the Government is forced to anticipate its receipts of taxes by issuing short-term certificates, the interest on which, as it must be paid from tax revenue, reduces the amount which accrues to the Government from taxes. Monthly payment of sales taxes will provide a steady flow into the Treasury of at least one-half of all taxable revenue and remove much, if not all, of the necessity for such anticipation.

(7) Exemptions. Our proposals as to exemptions are based entirely upon extensive calculations as to the taxes which we have proposed, including the sales tax, and have been fixed at the rates proposed because such calculations have determined to our satisfaction that only by their adoption can there be brought about in the distribution of income the close approximation which we believe necessary. As already disclosed, exemptions are to be granted as follows:

To a single person	$2,500
To the head of family, or to a married person living with husband or wife	5,000
For minor children or dependents	500

Individual Exemption shall apply first to the income from Class 1, that from salaries, wages, bonuses, etc. In case the exemption exceeds the amount of income in Class 1, the balance of the exemption shall apply to the income received in Class 3. If there is no income in Class 1, the entire exemption is to be applied to Class 3.

On page 9, included in the explanation of the tax on income from Class 3, is an illustration of the application of exemption as it applies to both classes.

Business Exemption. To all business there shall be granted an exemption of $5,000. Corporations and partnerships shall return and pay tax on income from their business.. Individuals in business shall made a return of business income, which shall be separate from their individual return of income from other sources. The business exemption of $5,000 shall not extend to income derived from interest on bonds or taxable securities, or to any other form of unearned income, even though it is not exhausted in the determination of business tax.

Exemption from surtax on unearned income is fixed at $20,000, because of the necessity of protecting those whose income is comparatively small and derived solely from such source, and who are unable by reason of age or infirmity to augment it by income from wage or business.

The fixing of exemption cannot be left to chance. It must be premised on equity to the taxpayer, and we believe that in the examples of the working of

our Normal Tax plan is conclusive evidence that the amounts we have suggested result in such equity.

Into the consideration of individual exemptions must enter a recognition not only of living conditions but of the fact that the person of small income necessarily spends a large proportion of it, and without liberal exemption would as a consumer pay in the form of direct Normal Tax and indirect sales tax, an amount which when compared in ratio to that paid by the man with the higher income would be disproportionate and excessive.

Revenue Production

In our study of the amount of revenue which would be produced by a plan, such as we propose, it was necessary for us to take as a basis the Treasury Estimates for the fiscal year 1921.

Income Tax—Individuals	$1,310,000,000
Income Tax—Corporations	550,000,000
Excess Profits Tax	1,300,000,000
Other I R Taxes	1,350,000,000
Customs	360,000,000
Miscellaneous	651,000,000
*Postal Revenues	462,575,190
	$5,521,000,000

*Postal revenues are not included in the total estimated revenue of $5,521,000,000 because the Post Office Dept. is self-supporting.

Plan of the Taxation Committee

Corporation—Normal Tax	$ 550,000,000
As excess profit taxes are credits in the computation of Normal Tax on Corporations, there will be an increase in the amount of Normal Tax, because of the elimination of Excess Profits Taxes of an amount equal to 10% of the estimate for Excess Profit taxes or	130,000,000
Estimated increase in the tax revenue from corporations, because of increase in railroad earnings	100,000,000
Estimated increase in tax revenue from business because of elimination of Title V, part of increase will come from partnerships and individuals in business (10% of $250,000,000)	25,000,000
Individual and Partnership	
The government actuary says that $990,000,000 of the 1921 estimate for the tax derived from individuals is for the surtaxes which it is planned to eliminate. Such eliminations would leave an amount of	320,000,000

Increase of Present Revenue from Corporations and Individuals, because of the standardization of all business taxes at 10%, and the amount which will accrue from surtaxes on unearned income. It is impossible to say how much of this will be derived from Corporations and how much from individuals, but government experts have assured us it will amount to at least	80,000,000
This is an extremely conservative estimate even with the increase in exemption. The elimination of the present surtax rates and the substitution of the 1913 surtax rates, will tend to increase investment in business and in taxable securities which will bring about a tax increase of a very large amount.	
Obligations, Franchise or Exemption Tax	80,000,000
Title IV—Estates Tax	103,628,105
Title VI—Beverages except non-alcoholic	140,000,000
Title VII—Cigars, Tobacco, etc.	294,813,073
Customs receipts	360,000,000
	$2,183,441,178
Treasury need	4,000,000,000
To be raised by Gross Sales Tax	1,816,558,822
Sales necessary at 1%	181,655,882,200

Miscellaneous Treasury Receipts—It is estimated that in 1921 there will be miscellaneous treasury receipts of $651,000,000 from interest on loans to the Allied governments and from war salvage. There is such uncertainty attached to such an estimate that in these calculations it has not been taken into consideration. Whatever may be received from such sources will reduce the amount necessary to be raised by the Gross Sales Tax. The possibility that the Government may be forced to fund the interest due at the present time from Allied governments and the fact that little success has so far attended the sale of war materials and plants leads conservative thinkers to such elimination.

Customs Increase—No allowance has been made for increase in treasury receipts, because of the adoption of higher tariff rates. It is to be expected that there will be such increase which will, of course, operate to reduce the amount necessary to be raised by a gross sales tax.

Gross Sales Tax to Complete Budget—The amount of sales necessary to tax at 1%, to produce $1,816,558,822, necessary to complete the budget of $4,000,000,000 is, of course, conservative in the extreme. Excluding from consideration as sales, all professional services, brokers' fees, rents, royalties, commissions, there can be no question that there would be gross sales far in excess of the estimate of such an amount, and leads the Committee to the belief that a Gross Sales Tax of not more than ½ of 1% would be ample.

Respectfully submitted,
C. B. Clark,
Chairman, Committee on Taxation.

END OF
TITLE